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SUBJECT: GOSS OFFICIALS COMPLAIN OF LACK OF OIL REVENUE TRANSPARENCY

11. (U) SUMMARY: Organized by the US Embassy in its role as Coordinator, the AEC's Wealth Sharing Working Group (WSWG) traveled to the South Sudanese capital of Juba April 16 for a field visit. The purpose of the trip, besides the symbolism of holding a session in Juba, was to gather information for the WSWG section of the AEC's Mid-Term Evaluation (MTE). The WSWG heard from the GOSS Minister of Finance, as well as the Director General of Hydrocarbons in the Ministry of Industry and Mines. The officials continue to express frustration with what they termed a lack of transparency with information on oil revenues from the Government of National Unity (GoNU). However, these appear to be relatively minor problems dwarfed by the significant amounts of oil and non-oil revenues -- most, indeed, of what the South is entitled to under the Comprehensive Peace Agreement (CPA) -- being transferred to the South. End Summary.

WELCOME TO JUBA (BUT STILL NO SPLM)

12. (U) CDA Fernandez welcomed the WSWG members and observers to Juba, noting that the field visit served to facilitate participation in the CPA process by the GoSS (despite the glaring absence yet again of a WSWG representative from the SPLM), and underlined the fact that the CPA was a bilateral agreement. The session was held in the Juba offices of the AEC, which are funded by the USG.

GOSS FINANCE MINISTER: TRANSPARENCY STILL LACKING

13. (U) The first speaker was Kuol Athian Mawein, GoSS Minister of Finance and Economic Planning since July 2007. Mawein raised several issues he wishes to see addressed. To begin, he complained that the GoSS is not given daily production figures, but is only informed as to the dollar amount of revenue transfers. This means, he said, that "we have no way of verifying whether the revenue entitlements reported to us by the GNU are correct." In fact, he said in an aside from his written remarks, the GoSS knows the figures are not correct, as they are aware of accounting "tricks" that can be used. However, "since we want to maintain the peace," the GoSS has not made an issue of this, he said.

BUT THE MONEY IS ROLLING IN

14. (U) Since 2005, he readily admitted, the GoSS has received over 3.5 billion (USD) in oil revenue from the GNU, including 1.39 billion USD in 2007. Mawein complained that monthly oil transfers are extremely irregular in amount, fluctuating between 38 million (in March 2007) and 243 million USD per month over the past two years. Further, transfers are made on an irregular schedule. There can be a delay of up to three weeks from the reported date of the transfer until funds actually reach GoSS accounts. Mawein said he intends to discuss these issues with both the GNU and the Bank of Southern Sudan. He will be traveling soon to Khartoum to meet with the new GNU Minister of Finance.

ARREARS CONTINUE TO MOUNT

15. (U) The Minister complained that the GoNU had built up 176 million USD in oil revenue arrears to the GoSS, including \$80 million from 2005 and over \$90 million from 2006 and 2007. He noted GoNU promises to pay off the arrears, "but so far, it has not done anything. Instead, the arrears keep increasing. This year, they amount to \$4 million already."

NON-OIL REVENUES

16. (U) The GoSS and GoNU have established a Joint Non-Oil Revenue Sharing Committee to oversee sharing of these revenues (customs, taxes, etc.) collected in the South, Mawein reported. This body has now established a system for depositing such revenues collected in the South into a joint account, and then dividing them according to the CPA. However, he complained that the GoSS had not received any of the arrears for non-oil revenues collected in the South between 2005 and 2007, before the new system was put into place.

GOSS FISCAL ALLOCATIONS TO SOUTHERN STATES

17. (U) The Finance Minister reported that in 2008, the GoSS has budgeted 154 million USD in block grants to be transferred to the various southern states. That amount was simply divided equally among the states, as suggested by the state governors. Once the GoSS obtains data from the upcoming census, however, the GoSS will use that data to develop a more equitable formula for the transfer of these block grants. The formula will take into account such factors as population, geographical area, and "natural endowments."

18. (U) In conclusion, Mawain reiterated that the main improvements

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the GoSS seeks are: 1) elimination of delays in transfers of oil revenues; 2) payments of arrears for both oil and non-oil revenues; and 3) access to daily oil production data so that the GoSS can verify that it is receiving the correct amount of revenues.

HYDROCARBONS DG: LACK OF TRANSPARENCY IN "EXCESS OIL"

¶9. (U) Archangelo Okwang, Director General of Hydrocarbons in the GOSS Ministry of Industry and Mines, next addressed the WSWG. Speaking confidently and without prepared remarks, he described in detail the mechanism for allocating oil revenues, the oil industry in the South and noted how light and viscous oil from different blocks (often, from North and South) is blended to produce a mixture that is more easily transported.

¶10. (U) Okwang said the Joint Technical Committee on oil production has not been able to gain access to production contracts negotiated before the CPA was signed in 2005. He explained the concept of "excess oil" under those oil contracts, noting that revenue from such "excess oil" is supposed to be allocated to the Central Government (and then divided according to the CPA). However, the JTC has been provided no figures on excess oil, which "is a big problem with the lack of transparency of the oil contracts," he said.

OIL PRODUCTION FLUCTUATIONS: BLAMING THE BIRDS

¶11. (U) Referring to the monthly fluctuations in oil revenue transfers noted by the Finance Minister, Okwang too complained of a lack of transparency. For instance, he said that when GoSS officials had inquired about unusually low production for March 2007, the GNU had provided what he said was an unsatisfactory explanation, blaming a "big flock of birds" for somehow disrupting oil production.

TRAINING AND CAPACITY PROBLEMS

¶12. (U) Without assigning blame, the Director General lamented a lack of capacity in his own government's oil expertise. NOTE: While he did not say those problems contributed to the lack of transparency, that was the clear implication. End Note.) The GoSS needs economists able to monitor sales, and it needs trained chemists in the laboratories to make sense of and draw conclusions from oil production information.

COMPLAINTS OF U.S. SANCTIONS

¶13. (U) Okwang also complained of U.S. economic sanctions against Sudan, and appealed for an exemption for oil production in the South. Because of the U.S. sanctions, Western oil companies are prevented from entering the Sudanese market, which left the field open to unscrupulous Asian companies. This resulted, for example, in greater problems with human rights (treatment of oil workers, etc) and environment than would have been the case with western companies. CDA Fernandez replied, acknowledging that U.S. sanctions do indeed act against all Sudanese oil, no matter where it is produced. One of the tragedies of Sudan, he added, is that the U.S. is a world leader in refining the type of heavy oil produced in the South. Also, he noted the "image problem" facing Sudan: Western companies shy away from investing in Sudan because of the country's poor human rights record. In turn, the NCP rep said merely that the GNU had been forced to turn to Asian companies on drilling and production contracts because of the American sanctions.

¶14. (U) Among other issues raised by the Hydrocarbons Director General:

-- Community development funds are being paid by oil companies, but the funds are not being used for development. The fund should not be managed just by one side (i.e., the North).

-- Abyei oil: Asked by one of the foreign delegates of his government's position on de-coupling the issues of territory from that of oil production in Abyei, Okwang said the South "does not understand" why none of the oil from Abyei is being shared with the South despite provisions of the CPA. For the South, Abyei is an issue of borders, he said. He urged that the CPA's international "witnesses" stand up and demand that the South's 42% share of Abyei's oil revenues be implemented.

NCP REPLIES: DEMAND FOR EQUAL TIME

¶15. (U) The NCP representative spoke up, saying he was "surprised" to hear of the complaints made against the national Ministry of Energy and Mining (MEM). Many of the questions should better have been directed to the Joint Technical Committee, as that body includes representatives of both sides, he said. He alleged a lack

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of a "clear-cut agenda" for the Juba meeting, and said GNU officials should have been given the opportunity to speak. In particular, he "officially suggested" that the new GNU Energy Minister be invited to address the WSWG. CDA Fernandez noted that it had taken over a year of effort by the WSWG to arrange an appearance by the former Energy Minister in late 2007. He said he would welcome an appearance, but hoped the new minister would be more readily available. The NCP rep promised to facilitate the Finance Minister's appearance before the WSWG.

¶16. (SBU) COMMENT: The Juba meeting was a useful exercise that produced much information for the AEC MTE. We continue to be frustrated, and puzzled, by the inability of the SPLM to provide representatives for WSWG meetings - this is the second in a row that they have not attended. We were, however, able to ensure that the

GOSS representatives from the two ministries attended. We will continue to push the SPLM to take a more active part in the AEC process. To some extent, the lack of transparency complained of by the GoSS and the SPLM is more indicative of their own limited capacity: they are simply not equipped to take advantage of some of the sources of information available to them. Moreover, one of the points of agreement that enabled the SPLM to return its ministers to the GNU in December was an arrangement regarding transparency to allow access by GOSS technical experts to oil installations. Nonetheless, the larger point on wealth sharing remains clear: while some relatively minor problems persist, the process of wealth sharing continues largely to be a success, responsible for the transfer of very significant sums of money to the South.

FERNANDEZ